

Tte. Vera 1761
Villa Morra
Asunción – Paraguay
Emprendimientos Nora Ruoti SRL

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Summary of Paraguayan Law relating to Corporations **(Sociedades Anónimas)**

The Paraguayan Civil Code sets forth the procedure to be followed in the formation of corporations (Sociedades Anónimas), wherein the participation of incorporators is represented by shares.

CORPORATE NAME: Corporate name must include denomination "Sociedad Anónima" (SA).

ORGANIZATION: Following conditions are indispensable to establish an SA:

1. There must be a minimum of two incorporators or shareholders;
2. Capital stock must be completely subscribed.

CORPORATE BY-LAWS (Estatutos): Following must be included in by-laws:

3. Full name, nationality, profession, civil status, domicile of shareholders, and number of shares subscribed by each one; (shareholders may be individuals or companies)
4. Name of the SA and its domicile within the country or abroad;
5. Nature of business of SA;
6. Specified duration of the SA;
7. Amount of capital subscribed and paid in;
8. Nominal value and number of shares, and indication whether these are bearer or nominal;
9. Value of assets incorporated in kind, if any.
10. Basis on which distribution of profits will be made;
11. Special privileges and rights, if any, conferred to the founders.
12. Dispositions regarding management and supervision, their respective powers and duties, and number of administrators;
13. Powers conferred to stockholder's meetings, provisions regulating exercise of stockholders rights to vote, and procedure to take decisions at such meetings;
14. Basis on which SA is to be liquidated;

FORMALITIES REQUIRED TO ESTABLISH AN SA: Shareholders must enter into a corporate contract in the form of a public instrument, with intervention of a Notary Public.

An SA acquires separate legal status from that of its shareholders upon registration in "Registry of Juridical Persons and Associations" and the "Public Registry of Commerce". Authorization to register will be granted if corporate organization and the Estatutos conform to the provisions of the Civil Code and its purpose is not contrary to public policy.

Lack of registration will not make the corporate contract void, but it may not be opposed to third parties. Shareholders, directors and any person who have authorized acts, transactions and operations in corporate name prior to registration of SA are jointly and severally liable towards third parties.

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MANAGEMENT: Management and administration of SA is exercised by one or more directors elected by the annual general meeting or designated in incorporation contract. Their number and term of office is determined in the by-laws.

Directors need not to be shareholders. They may be reelected, but designation is revocable. Term of directors shall be for one fiscal year unless by-laws establish otherwise. Directors may only engage in business transactions with the SA under special circumstances. They are forbidden from executing any business on behalf of SA not related to purpose for which it was formed. Directors must be Paraguayan citizens or foreigner with legal residence in the country.

Administrators are responsible to corporate creditors for negligence in their duties to safeguard the integrity of SA's assets.

SUPERVISION: One or more trustees ("Síndicos") must also be elected by annual general meeting to supervise management of SA. They must be capable of performing duties assigned in by-laws, and domiciled in Paraguay. By-laws shall determine duration of their terms, which may not exceed three fiscal years. Trustees may be reelected.

Trustees have following powers and duties:

1. Supervise administration and management of SA, and participate without vote in annual shareholders meeting and Board of Directors meetings;
2. Examine corporate books and papers whenever they deem advisable, at least once every three months;
3. Call special shareholders meetings when necessary and ordinary shareholders meetings when the Board of Directors fails to do so;
4. Ensure that SA complies with all obligations under law, as well as with decisions of general meetings.

RESPONSIBILITY OF ADMINISTRATORS: Administrators are not liable for obligations of the SA except in case of non-performance of their duties, mismanagement, or violation of the law or by-laws. In such instances, administrators are jointly and severally liable to SA and to third parties for their acts; but directors who protested, voted against, or were not present when such acts were resolved, are not able.

SHAREHOLDER'S MEETINGS: Called Asambleas Generales may be ordinary or special and must take place in corporate domicile.

Ordinary meetings must be called every year by directors or trustee, to consider and resolve following:

1. Annual report of directors, statement of accounts, distribution of dividends, trustee's report, and any other issue within its competence under law and by-laws.
2. Election of directors and trustees, and determination of their compensation.
3. Control responsibilities of directors and trustees, and remove them from office.
4. Issuance of shares.

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Asesoría Jurídica Tributaria Contable Integral

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Special meetings may be called by Board of Directors at any time, or by trustee when deemed necessary or convenient, or at the request of shareholders representing at least five percent of corporate capital (except if by-laws indicate otherwise), to resolve following:

1. Modification of by-laws.
2. Increase or reduction of corporate capital.
3. Redemption, reimbursement or amortization of shares.
4. Merger, transformation or dissolution of corporation, and all matters related to liquidation and liquidators.
5. Issue of debentures or exchange of these for shares
6. Issue of participation bonds.

Notice of meetings, including full agenda and any special requirements set forth in by-laws for participation, shall be published for five days, at least ten days before meeting. Should the meeting not take place, a second meeting must be called within thirty days. Decisions on matters not listed in agenda are null and void.

To participate in meetings, shareholders must deposit share certificates with the Secretary of the SA or present a certificate from a local or foreign bank holding the shares, three days before meeting. Shareholders may be represented in meetings by proxy, but not by directors, trustees, managers or other employees of SA.

Ordinary meetings on first call require a quorum of shareholders representing majority of shares with voting rights; any number of shareholders forms quorum for second call. In either case resolutions require absolute majority of votes present unless by-laws call for different majority.

Special meetings on first call require presence of shareholders representing sixty percent of shares with voting rights; on second call quorum is thirty percent. By-laws may establish different quorum.

SHARES: Ownership of SA is represented by bearer or nominal shares. Share certificates must be numbered and signed by one or more directors. Certificate must include name of SA, date and place of registration, amount of subscribed capital, number, par value and type of shares. Share certificates may only be issued once they are paid in full, until that time, the shareholders are given nominal provisional certificates and remain liable for payment. By-laws may establish different kinds of shares with different rights, which may be nominal (endorsable or not) or to bearer. Transfer of shares may be subject to special conditions.

Corporation may acquire its own shares when authorized by special meeting, and such purchase may be made with liquid earnings provided shares have been paid-in fully.

ACCOUNTS: Directors are required to prepare each year an inventory, a detailed statement of account, a report on its tenure, and whatever other documents are needed to show condition of SA. Documents must be approved at annual ordinary general meeting.

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DIVIDENDS: Five percent of net profits must be set aside annually with the purpose of creating reserve fund of not less than 20% of subscribed capital. Dividends may only be paid to stockholders out of SA's net liquid profits. Any infringement makes directors jointly and severally liable.

ISSUE OF DEBENTURES: Law 772/79 and the Civil Code contemplate issue of debentures by an SA provided they fulfill with certain requirements.

Time required: Incorporation of SA takes approximately 45 days.

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LIMITED LIABILITY COMPANIES (SOCIEDADES DE RESPONSABILIDAD LIMITADA)

Two or more persons or corporations may establish a partnership in the form of a limited liability company. The limited liability companies (Sociedad de Responsabilidad Limitada) may use any name, including that of one of more of partners, preceded or followed by words: "Sociedad de Responsabilidad Limitada" or "SRL". An SRL may not engage in banking, insurance, or savings and loans business.

An SRL may not operate unless contract has been registered in Public Registry of Commerce (Registro Público de Comercio). It is not compelled to register as a commercial entity, but failure to do so creates unlimited responsibility of all partners towards third parties.

COMPANY CAPITAL: Capital may not be represented by nominal, endorsable or bearer shares. It is divided into nominal quotas of 1,000 Guaranies or multiples thereof, indicated in the incorporation contract.

CONSTITUTION OF AN SRL: An SRL may be formed by two (but not more than twenty-five) partners upon formalization of an incorporation contract in the form of a public deed (escritura pública).

The company capital must be fully subscribed and at least 50% paid-in in cash. There are no minimum capital requirements, but it must be adequate for the type of business the SRL will engage in. Export and import companies must meet certain requisites imposed by the Central Bank of Paraguay.

Company capital may also be incorporated in goods or fixed assets, which will be transferred to name of the company in constitutive documents or once company contract is recorded in Public Registry of Commerce. Partners remain jointly and severally liable towards third parties for value of goods and assets incorporated as capital.

If SRL has more than five members, transfer of quotas to third parties must be approved by partners that represent 3/4 of capital. If SRL is formed by less than five partners vote must be unanimous. Transfer of quotas among partners is unrestricted.

The partner wishing to transfer quotas must advise others, who must reply within fifteen days. Assent is presumed if no opposition is made. Partner who is not been able to obtain consent to transfer his quotas may be authorized to do so by a judge in summary proceedings. If opposition is deemed to be without cause, other partners of the SRL may acquire quotas in same conditions offered to or by third parties. SRL may also acquire quotas with net liquid profits or by reducing its capital. Transfer of quotas must be made by a Notary Public, but will not be effective until recorded in the Public Registry of Commerce.

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MANAGERS: Administration and representation of SRL is delegated to one or more managers (gerentes), who may be partners or not, and who have same rights and duties as directors of sociedades anónimas. There are no limitations to their terms.

Managers may not act on their own initiative in any business transaction that is not included within the purpose for which the SRL was formed, nor may they assume the representation of another person or commercial entity with similar business without express authorization of partners. Managers are personally and severally liable to SRL in case of bad management or violation of company charter.

All partners have right to take part in decisions of the company. If SRL's charter does not determine how partners will reach decisions, the rules for general meetings of sociedades anónimas will apply. All resolutions to change the purpose of the company, or to transform, merge, or amend the SRL's charter which imposes more responsibility to the partners require unanimous consent. Any other resolution is passed by majority of capital; each quota represents one vote.

RESERVE FUND: Five percent of net profits are required to be set aside annually to create a reserve fund of not less than 20% of SRL's capital.

DISSOLUTION: An SRL is not dissolved by death, interdiction or bankruptcy of a partner, or by dismissal of manager, or partners named in the contract, unless a corporate contract stipulates to the contrary. Bankruptcy of SRL does not imply the bankruptcy of partners.